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Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations: financing of the United Nations peacekeeping operations

Report of the Office of Internal Oversight Services on the audit of contingent-owned equipment procedures and payments to troop-contributing countries

Note by the Secretary-General

1. Pursuant to General Assembly resolution 48/218 B of 29 July 1994, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General, Overseer of the Office of Internal Oversight Services, on the audit of contingent-owned equipment procedures and payments to troop-contributing countries.

2. The Secretary-General takes note of its findings and concurs with its recommendations.

* Reissued for technical reasons.

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Report of the Office of Internal Oversight Services on the audit of contingent-owned equipment procedures and payments to troop-contributing countries

Summary

On 11 April 1996, the General Assembly, by its resolution 50/222, adopted revised procedures for reimbursing troop-contributing countries for equipment used in peacekeeping missions. The Office of Internal Oversight Services (OIOS) found that the revised contingent-owned equipment (COE) procedures constituted a meaningful reform that had rationalized the previously complex procedures, resulting in greater economy and efficiency. However, OIOS found that improvements were needed in several areas in order to fully realize the cost savings and efficiency gains anticipated when the revised procedures were introduced. The audit focused on the implementation of the new procedures by the Department of Peacekeeping Operations. OIOS also examined the procedures for reimbursing Member States for troop contributions.

Significant findings included the following:

- The Department of Peacekeeping Operations needs to develop a plan to convert contingents in ongoing missions, which are still under the old COE system, to the revised COE procedures.
- The negotiation of memoranda of understanding with troop-contributing countries is often a protracted process, requiring the input of several divisions within the Department of Peacekeeping Operations and other departments. The focal point for these negotiations is the Department's Finance Management and Support Service, which also reviews and certifies payments to troop-contributing countries. This has resulted in inadequate segregation of duties.
- Procedures adopted to reimburse troop-contributing countries for inland transport and COE preparation costs resulted in non-compliance with financial and procurement rules.
- Payments for COE preparation costs and inland transport charges were often made on the basis of claims submitted by the troop-contributing countries. One claim of $2.6 million, for painting and repainting COE, was not adequately documented, and was overstated by approximately $750,000, according to the Department's own assessment.
- The Department's procedures for missions to verify and report on COE utilization were overly complex and did not add significant value.
- The Department had not established adequate administrative arrangements for processing COE claims.
- At the time of audit, approximately $463 million in claims for COE had still not been finalized for payment. This represented 36 per cent of the total claims backlog.
- Payments for troop contributions are based on troop-strength reports which had not been certified by peacekeeping missions.

Based on the findings, the report makes nine recommendations, which include measures for enhancing the process of negotiating memoranda of understanding, improving the Department's administrative arrangements for reimbursement to troop contributors, strengthening procedures to reimburse Member States for equipment preparation and inland transport costs, and simplifying COE reporting procedures.

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I. Introduction

1. With the advent of large-scale peacekeeping missions, it became clear that the procedures for determining reimbursements to troop-contributing countries for contingent-owned equipment (COE) had become cumbersome to manage, both for Member States and the Organization. In section II of its resolution 49/233 of 23 December 1994, the General Assembly authorized the Secretary-General, with the participation of Member States, to proceed with a project to set standards for each category of equipment and to establish rates of reimbursement. Based on the recommendations of the Phase I, II and III Working Groups on Reimbursement of Contingent-Owned Equipment, revised reimbursement procedures were adopted by the Assembly in its resolution 50/222 of 11 April 1996.

2. The audit found that the revised COE procedures had largely achieved their objectives of simplifying reimbursements to troop-contributing countries for their contributions of COE to peacekeeping missions. The revised procedures also enabled the Secretariat to budget more accurately for peacekeeping missions. Despite these major achievements, the Office of Internal Oversight Services (OIOS) found that there were a number of areas where the revised procedures could be further improved in order to optimize economy and efficiency.

3. The objectives of the audit were to: (a) review progress made in transitioning to the revised procedures in ongoing peacekeeping missions; (b) determine the effectiveness of procedures for negotiating the memorandum of understanding with troop contributors; (c) examine the appropriateness of procedures for reimbursement of COE preparation and inland transport costs; (d) assess the COE and self-sustainment verification reporting procedures; and (e) determine the effectiveness of procedures to reimburse Member States for COE and troop contributions. The present report incorporates findings on various aspects of the revised COE procedures based on audits of the United Nations Mission in the Central African Republic (MINURCA), the United Nations Interim Force in Lebanon (UNIFIL), the United Nations Disengagement Observer Force (UNDOF) and the United Nations Peace Forces (UNPF).

4. A draft of the report was made available to the Department of Peacekeeping Operations and the Office of Programme Planning, Budget and Accounts for their review. Their comments have been taken into account and are identified by the use of italics.

II. Revised COE procedures: outstanding issues

A. Conversion to the revised procedures

5. On 1 July 1996, the revised COE procedures came into effect, and all new missions and new contingents in existing missions were required to follow them. For those missions that started before the revised procedures came into effect, it was intended that the contingents would eventually adopt the revised procedures. The Phase IV Working Group on Reimbursement of Contingent-Owned Equipment recommended, in its report (A/C.5/52/39, para. 72), that a transitional plan be formulated by the Secretariat for consideration and approval by the General Assembly by the end of 1998.

6. OIOS found, however, that the Department of Peacekeeping Operations had made only limited progress towards developing a plan for converting contingents to the revised procedures. This situation resulted in some inefficiencies since a dual system of old and revised procedures existed in some missions. OIOS believes that, in order to realize the efficiency gains that would result from the revised procedures, a plan needs to be promptly finalized and a deadline established for all contingents to facilitate conversion to the revised procedures.

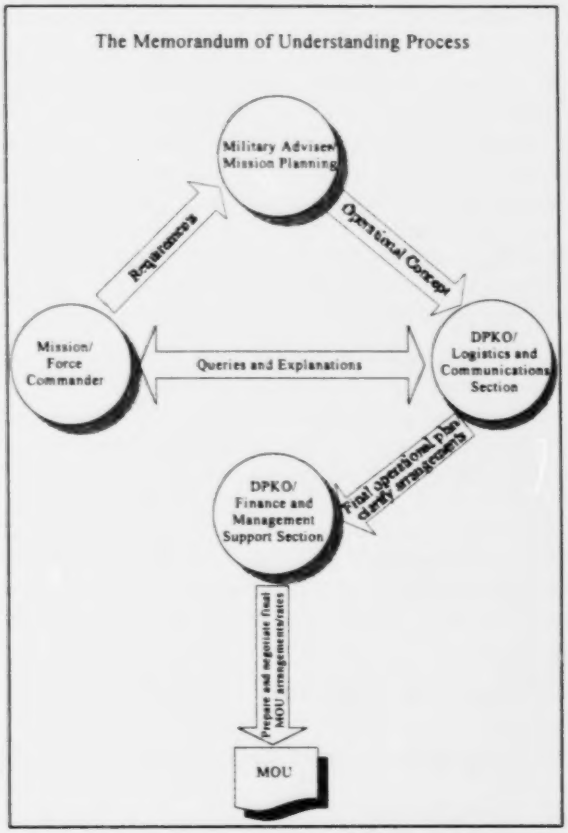
7. Some of the benefits lost by not implementing the revised procedures were illustrated by the findings of a 1998 OIOS audit of UNIFIL, which the Department had designated as the "model mission" for conversion to the revised COE procedures. OIOS identified barriers to implementing the revised procedures within the mission which included a general reluctance to adopt the revised procedures. As a result, UNIFIL lost opportunities to simplify operations by reducing its maintenance and logistics support requirements. Opportunities may also have been lost to replace the ageing United Nations-owned military equipment fleet and to reduce mission staffing levels, which could have resulted in more economical operations.

B. Contingents' self-sustainment capabilities

8. Another factor restricting the effectiveness of the revised procedures was the inability of all contingents to provide for their self-sustainment. Under the revised COE procedures contingents are required to provide all the equipment and other resources needed for self-sustainment during the peacekeeping mission. This includes essential items such as catering, office equipment and supplies, electrical supply, minor engineering, laundry and cleaning, and accommodation. Situations may arise in missions where the capabilities of contingents to meet these requirements differ. For example, MINURCA had to provide catering, office facilities, accommodation, and minor engineering because some contingents were unable to sustain themselves.

9. If contingents are unable to provide for their self-sustainment, missions need to fulfil this requirement. However, this approach would normally be feasible only if self-sustainment were provided to all contingents in a mission, allowing for economies of scale. In the opinion of OIOS, such situations need to be taken into account during the mission planning stage and may require an assessment of capabilities in these areas when selecting contingents.

III. Procedures for negotiating memoranda of understanding need to be reassessed



10. A central element of the new COE procedures involves the establishment of a memorandum of understanding between the United Nations and the troop-contributing country. The memorandum outlines, among other things, the specific equipment and other services to be provided by the troop contributor and establishes the reimbursement rate. The OIOS review of selected contingents found that in all cases they were deployed before the memorandum of understanding had been signed. The maximum time required to sign the memorandum after the deployment of troops was 30 months and the minimum time required was five months. While recognizing that contingents may have to be deployed on very short notice, OIOS considers the length of time required to finalize the memoranda to be excessive. The delays resulted from time requirements to clear the memorandum at Headquarters and the subsequent review of the draft memorandum by the concerned troop-contributing countries. The Department of Peacekeeping Operations therefore needs to reassess internal procedures for reviewing and obtaining clearance for memoranda of understanding with a view to streamlining the process.

11. The OIOS review of the documentation underlying the memoranda of understanding indicated that there was little systematic recording of the negotiation process. To ensure an effective negotiating process it is necessary to document each step fully by preparing minutes of meetings and other records of discussions with troop-contributing countries to preserve institutional memory and ensure transparency. Moreover, prior to February 1998 the negotiations were to a large extent carried out by gratis military personnel who were not always well versed in negotiating procedures and documentation requirements. This compounded the lack of transparency in the negotiations process.

12. As a result of a 1996 OIOS observation of the negotiation process in UNPF, the Department of Peacekeeping Operations had agreed to, but did not implement, a

recommendation requiring that minutes and other formal records of COE negotiations should be maintained. In order to correct this situation, the Department needs to establish appropriate procedures for carrying out negotiations with the troop contributors and to maintain minutes and other records of meetings.

13. The Department's Finance Management and Support Service is the focal point for negotiations with the troop-contributing countries. These negotiations result in a contract between the troop contributor and the Organization for the provision of COE and troops to a peacekeeping mission. The OIOS review found that the current arrangements did not provide adequate segregation of duties because the Finance Management and Support Service is also responsible for reviewing and certifying troop contributors' claims. The Department therefore needs to determine the possibility of establishing more appropriate arrangements. However, the Finance Management and Support Service would still have to be involved in assessing the financial implications resulting from the negotiations.

14. In its response to the draft report, the Department of Peacekeeping Operations stated that it: "*... does not believe there is a conflict of interest by the Finance Management and Support Service being the focal point for memoranda of understanding negotiations and being responsible for processing contingent COE claims, since both the Logistics and Communications Service and the Mission Planning Service are integral parts of the negotiating team. Furthermore, it seems sensible to consolidate all financial aspects of peacekeeping operations in the Finance Management and Support Service, from assessing the financial implications to the Organization resulting from the negotiations to the processing of the related reimbursement claims*".

IV. COE preparation and inland transportation charges

A. Reimbursement rates need to be established

15. The COE Manual sets out procedures for preparation of COE for deployment to missions and the subsequent return to its original condition in accordance with standards defined by the United Nations. The COE Manual indicates that these costs will be assessed and reimbursed on the basis of a claim. The audit found, however, that the costs charged by troop-contributing countries for similar services varied widely and that claims submitted often lacked sufficient documentation to substantiate payment. Furthermore, standard reimbursement rates for preparation costs had not been established which, in the view of OIOS, results in arbitrary reimbursement decisions.

16. In one case reviewed, a $2.6 million claim had been submitted for painting and repainting of COE. The claim, which was received without adequate supporting documentation, was reviewed by the Department of Peacekeeping Operations, which indicated that a more realistic estimate of the cost was approximately $750,000 less than the claimed amount. In such a case the claim should have been returned for additional supporting documentation.

17. OIOS also reviewed inland transportation charges and found that standard reimbursement rates had not been established. This complicated the reimbursement process since it was often difficult to assess the reasonableness of the transport rates

charged by the troop contributor. For example, the Department of Peacekeeping Operations had approved an inland transport claim of $131,000, which included charges for administration, travel costs, fuel and lubricants, and vehicle wear and tear. However, there was no documentation on file to indicate that the claim had been reviewed and on what basis it had been accepted for payment. In the view of OIOS, a standard formula acceptable to all parties should be developed to reimburse troop contributors for inland transport claims.

B. Non-compliance with financial and procurement rules

18. OIOS also believes that the established procedures for reimbursing COE preparation and inland transport cost do not comply with the Organization's Financial Regulations and Rules. In particular, financial rule 110.5, which states that no commitment should be made for amounts exceeding $1,000 without recording an obligation, had not been complied with. Nor had these charges, which may be substantial, followed the Organization's procurement or letter of assist procedures. Until a standard costing formula is established for reimbursement of these costs to troop contributors, these services should be treated as any other contract for services and be processed under normal procurement or letter of assist procedures.

V. Verification reporting cycle needs to be streamlined

19. The basic principles of the revised procedures for COE and self-sustainment are simplicity, accountability as well as financial and management control. However, these principles had not been fully applied to the verification reporting procedures for COE. OIOS believes the reporting requirements could be streamlined which, in turn, would reduce resource requirements both in missions and at Headquarters. The COE Manual provides for missions to verify and report to the Department of Peacekeeping Operations at various stages, as set out in the table below:

Report	*Scope of report*
Arrival	Covers all the equipment and services for which reimbursement is sought in the memorandum of understanding. Should be finalized within one month of the contingent's arrival.
Monthly reporting	Reports to Headquarters on shortcomings in the equipment and self-sustainment that could not be resolved in the mission and which prevent the contingent from fulfilling its mandate.
Operational readiness	Conducted at least once every six months. May be restricted to areas of concern as decided by the Force Commander or Chief Administrative Officer.
Repatriation	Carried out at the time of repatriation. Verifies that all COE is accounted for and ascertains whether all of the Organization's equipment is returned.

20. In the opinion of OIOS, monthly reporting to confirm the serviceability of each category of COE does not add significant value to the monitoring of compliance

with the memorandum of understanding. In addition, the procedure at Headquarters involves regular reviews by five staff members from the General Service level to the Senior Officer level. The OIOS review of selected monthly verification reports indicated that the processing time normally exceeded one month, and in many cases took substantially longer. OIOS believes that the monthly reporting requirements could be eliminated if missions reported non-compliance with the memorandum of understanding on an exception basis. Missions should, however, develop their own internal COE inspection procedures in order to report exceptions to the Department of Peacekeeping Operations.

21. OIOS also believes that the monthly self-sustainment reporting requirement is unnecessary. An operational readiness report would be sufficient to determine compliance with the requirements of the memorandum of understanding on which reimbursement is based. There is little additional value gained by having missions verify COE self-sustainment categories monthly.

VI. COE reimbursement: need for timely and efficient processing

A. Administrative arrangements need to be fully established

22. Reviewing and certifying claims in a timely and efficient manner are essential aspects of both the old and revised COE processes. The audit found, however, that the COE claims process needs significant improvement to ensure the timely forwarding of claims to the Office of Programme Planning, Budget and Accounts and the liquidation of obligations. At the time of the audit, there was a backlog of approximately 185 claims amounting to approximately $463 million. This represented 36 per cent of the total claims backlog. OIOS believes this situation resulted from a number of factors, including:

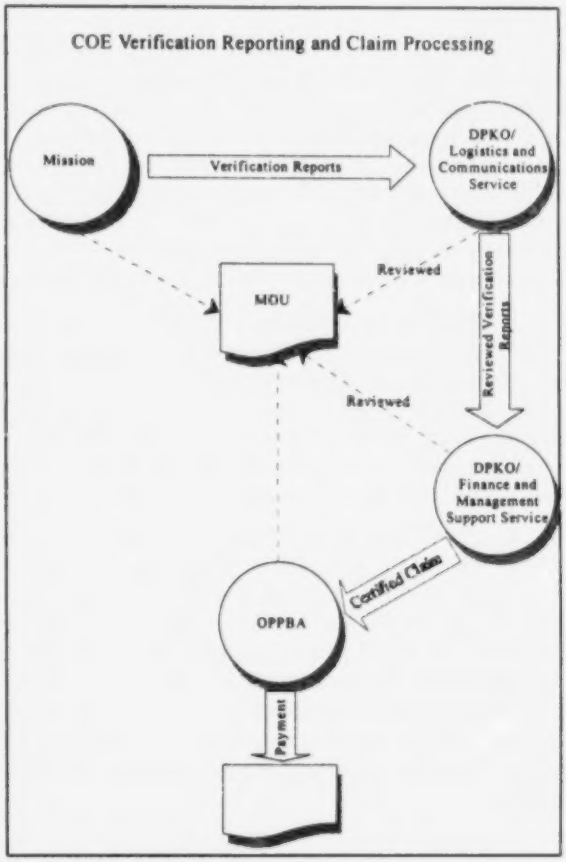
- Insufficient staffing to process the claims.
- Lack of adequate work flow and procedures within the Finance Management and Support Section of the Department of Peacekeeping Operations.
- The complicated process of verification reporting, which serves as the basis against which claims are assessed.
- Delays in signing memoranda of understanding.
- The backlog resulting from troop-contributing countries having elected to be reimbursed retroactively under the revised COE procedures.

OIOS concluded that the COE claims process needs additional management attention.

23. The Claims and Information Management Section of the Department of Peacekeeping Operations is responsible for processing COE claims. At the end of February 1999, this section was required to release 14 gratis personnel who had assisted in processing COE claims. Since the recent departure of the head of the section for mission assignment, only two staff members remained to deal with COE matters.

24. Except for the COE Manual, there were few written operating procedures, especially for the revised COE procedures, to guide the unit's work. The filing system was also inadequate, making it difficult for the section to retrieve information.

25. In its resolution 52/248 of 26 June 1998, the General Assembly approved the addition of four Professional posts and the redeployment of one General Service-level post to the Claims Administration Unit. Three of the Professional posts had recently been filled. However, at the time of writing of this report, the incumbents had not yet reported for duty. OIOS believes that the remaining posts should be quickly filled to enable timely and orderly claims processing. A similar recruitment situation existed in the Logistics and Communications Service of the Department of Peacekeeping Operations, which is responsible for processing verification reports, among other duties. In addition, the Department needs to establish a training programme and prepare standard operating procedures for processing claims in order to improve the unit's efficiency. Moreover, OIOS believes that consideration should be given to employing temporary assistance personnel to help clear the existing backlog.



B. Basis for reimbursement needs to be re-evaluated

26. As mentioned previously, one of the expected benefits of the revised COE system was simplified procedures, including those for claims processing. In this regard, the Department of Peacekeeping Operations had not taken full advantage of the revised procedures. For example, claims were processed based on verification reports which, as described in paragraphs 19 to 21 above, were unnecessarily cumbersome. Since the COE reimbursement rates are already included in the memorandum of understanding, procedures could be simplified by processing claims on the basis of exception reporting, with missions forwarding the exception report directly to the Finance Management and Support Service. This would

eliminate the lengthy verification report-processing period currently experienced at Headquarters.

VII. Reimbursement procedures for troop contributions

27. Under the current procedures, missions report monthly troop strength figures directly to the Peacekeeping Financing Division of the Office of Programme Planning, Budget and Accounts, which processes troop reimbursement claims. The Office reviews the troop strength figures prior to approving them for payment; however, this fails to provide adequate control since the Office's information is not sufficient to determine if the figures are correct. OIOS is of the opinion that, in order to establish accountability, the current procedures need to be amended by making mission Chief Administrative Officers responsible for certifying troop strength numbers sent to the Office of Programme Planning, Budget and Accounts.

28. Field audits of peacekeeping missions have also frequently found that internal controls for reporting of troop strength figures were inadequate. For example, in both UNIFIL and UNDOF the military components were responsible for completing the troop strength reports with little involvement by the civilian administration. In the opinion of OIOS, for internal controls to be effective, the civilian administration needs to establish systems and procedures for reporting troop strength figures and regularly monitor these reports.

29. OIOS believes that it would be more appropriate if troop reimbursement claims processing were also performed by the Department of Peacekeeping Operations, since it handles the financial aspects of peacekeeping operations. Having that Department perform this function would consolidate all aspects of peacekeeping claims within one department, thereby improving controls over claims and other financial activities. Moreover, the Department of Peacekeeping Operations has responsibility for establishing procedures in peacekeeping missions. Making it responsible for troop payments would therefore strengthen the coordination between the mission and Headquarters and provide greater overall control of financial matters.

30. The Department of Peacekeeping Operations responded to the draft report, and the Office of Programme Planning, Budget and Accounts concurred, that: "*This matter has been extensively reviewed in the past and we believe that until such time that assessed contributions are paid in full in a timely manner, there are distinct advantages for these functions to remain with the Office of Programme Planning, Budget and Accounts.*"

VIII. Recommendations

31. OIOS made the following recommendations, which were intended to facilitate implementation of the revised COE procedures, and to improve processing of claims for COE and troop contributions. Comments received from the Department of Peacekeeping Operations and the Office of Programme Planning, Budget and Accounts on the implementation status of the recommendations are summarized below each recommendation.

Recommendation 1

The Department of Peacekeeping Operations should establish procedures and time-frames for contingents in current missions to convert to the revised COE procedures (AP99/78/5/01).*

Implementation status: *The Department of Peacekeeping Operations stated that procedures and time-frames for contingents in current missions to convert to the revised COE procedures have been proposed by the Phase IV Working Group on Reimbursement of Contingent-Owned Equipment and are being implemented.*

Recommendation 2

The Department of Peacekeeping Operations should ensure, to the extent possible, that uniform self-sustainment arrangements are made for all contingents serving in peacekeeping missions, in order to avoid uneconomical arrangements resulting from the need to provide different levels of service for some contingents (AP99/78/5/02).*

Implementation status: *OIOS concurs that the Department of Peacekeeping Operations has taken adequate steps to implement the recommendation.*

Recommendation 3

The Department of Peacekeeping Operations should take steps to ensure that all COE negotiations with troop-contributing countries are fully documented by maintaining minutes of meetings and other records of the negotiations process (AP99/78/5/03).*

Implementation status: *OIOS concurs that the Department of Peacekeeping Operations has taken adequate steps to implement the recommendation.*

Recommendation 4

The Department of Peacekeeping Operations should ensure that reimbursements for inland transport and preparation costs incurred by the troop-contributing countries are made in accordance with the relevant United Nations financial and procurement rules. Furthermore, consideration should be given to establishing standard costing schedules for the reimbursement of these costs (AP99/78/5/04).*

Implementation status: *The Department of Peacekeeping Operations has submitted information on standardized preparation costs for COE vehicles and other items of major equipment for consideration by the Phase V Working Group on Reimbursement of Contingent-Owned Equipment. A proposal was also made by the Department of Peacekeeping Operations to the Phase V Working Group to consider adding a factor to the wet/dry lease rate for inland transportation similar to the incremental transportation factor, which compensates troop contributors for re-supply transportation. As recommended, until such time as standard rates are approved, reimbursement for such services will be effected in accordance with the relevant United Nations financial and procurement rules. The Phase V Working*

* An internal code used by the Office of Internal Oversight Services.

Group, which met from 24 to 28 January 2000, deferred consideration of these items to its next meeting.

Recommendation 5

The Department of Peacekeeping Operations should streamline the current COE reporting requirements by developing an exception reporting system, resulting in reduced resource requirements and more timely processing of COE claims (AP99/78/5/05).*

Implementation status: *The need for modifying the COE reporting requirements in the field was earlier recommended by the Department of Peacekeeping Operations and efforts are under way to elaborate a system that will satisfy both the Organization and the troop contributors. Detailed monthly reports on self-sustainment and the serviceability of each category of COE can be replaced with reports on exceptions to be submitted by the missions to the Logistics and Communications Service of the Department of Peacekeeping Operations for verification and, in turn, forwarded to the Finance Management and Support Service for certification.*

Recommendation 6

The Department of Peacekeeping Operations should finish processing the approximately $463 million backlog of COE claims due to troop-contributing countries and clear the related unliquidated obligations as soon as possible (AP99/78/5/06).*

Implementation status: *OIOS concurs that the Department of Peacekeeping Operations has taken adequate steps to implement the recommendation.*

Recommendation 7

The Department of Peacekeeping Operations should promptly recruit staff, develop standard operating procedures, provide necessary training, and properly maintain records in order to ensure that COE claims are processed quickly and efficiently (AP99/78/5/07).*

Implementation status: *OIOS concurs that the Department of Peacekeeping Operations has taken adequate steps to implement the recommendation.*

Recommendation 8

The Department of Peacekeeping Operations should ensure that missions establish appropriate systems and procedures for reporting troop strength figures and regularly monitor the troop strength reports (AP99/78/5/08).*

Implementation status: *OIOS concurs that the Department of Peacekeeping Operations has taken adequate steps to implement the recommendation.*

Recommendation 9

The Office of Programme Planning, Budget and Accounts should require that contingent troop strength reports be certified by mission Chief Administrative Officers before the claims are accepted for processing (AP99/78/5/09).*

Implementation status: *The Office of Programme Planning, Budget and Accounts noted that the Department of Peacekeeping Operations has indicated that it would review the system currently in place to determine whether changes are necessary and, if so, how they should be best put in place. Concomitant with the prospective action by the Department of Peacekeeping Operations, the Office of Programme Planning, Budget and Accounts stated that it would draw the attention of the Chief Administrative Officers of UNIFIL and UNDOF to the observations of OIOS in paragraph 27 above, and would send a new memorandum to all mission Chief Administrative Officers to remind them of their responsibility and accountability for the preparation, submission and certification of monthly troop strength reports to the Peacekeeping Financing Division of the Office of Programme Planning, Budget and Accounts.*

(*Signed*) Hans **Corell**
Under-Secretary-General
Overseer, Office of Internal Oversight Services